

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF CAYUGA

VERMILLION COUNTY, INDIANA

January 1, 2017 to December 31, 2017



FILED
01/09/2020

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Results and Comments:	
Capital Assets	6
Timely Recording of Transactions	6
Errors on Claims	6-7
Condition of Records.....	7
Appropriations	8
Customer Deposit Register	8
Financial Transactions and Reporting	8-9
Payment of Claims Prior to Town Council Allowance.....	9-10
Exit Conference	11

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Tamara Hetrick	01-01-16 to 12-31-22
President of the Town Council	Ron Brink	01-01-17 to 12-31-20
Superintendent of Utilities	George Hinote	01-01-17 to 12-31-20



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF CAYUGA, VERMILLION COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Cayuga (Town), for the period from January 1, 2017 to December 31, 2017. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the Town. It should be read in conjunction with our Financial Statement Audit Report of the Town, which provides our opinion on the Town's financial statement. This report may be found at www.in.gov/sboa/.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Official Response to the Audit Results and Comments, incorporated within this report, was not verified for accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

December 23, 2019

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CLERK-TREASURER
TOWN OF CAYUGA

CLERK-TREASURER
TOWN OF CAYUGA
AUDIT RESULTS AND COMMENTS

CAPITAL ASSETS

Condition and Context

Capital asset records were not maintained for the Town and the Utilities.

Criteria

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

TIMELY RECORDING OF TRANSACTIONS

Condition and Context

Utility receipts were not being posted timely. All receipts were recorded in the Water Utility ledger at the end of the month, but the Wastewater Utilities share of those receipts was not transferred to the Wastewater Utility until the next month.

Criteria

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

ERRORS ON CLAIMS

The same comment also appeared in prior Reports B30572, B38093, B41439, and B49568.

Condition and Context

The following deficiencies were noted on Account Payable Vouchers (claims) during the audit period.

1. Claims were not prepared, approved by the Clerk-Treasurer, or approved by the Town Council for any of the construction disbursements made for the water project.
2. Of the monthly transfers made to the Bank of New York, 50 percent of the claims were prepared without supporting documentation, and all of the claims were paid prior to receiving Town Council approval.

CLERK-TREASURER
TOWN OF CAYUGA
AUDIT RESULTS AND COMMENTS
(Continued)

Criteria

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

CONDITION OF RECORDS

A similar comment also appeared in prior Reports B41439 and B49568, entitled *CONDITION OF RECORDS*.

Condition and Context

The following deficiencies with recordkeeping were identified:

1. Monthly local tax distribution receipts totaling \$8,352 were recorded in incorrect funds.
2. The Clerk-Treasurer did not record the water project transactions in the ledger. The project exceeded one million dollars and all transactions were handled through the Bank of New York. The Clerk-Treasurer did not reconcile the Bank of New York accounts.

Criteria

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER
TOWN OF CAYUGA
AUDIT RESULTS AND COMMENTS
(Continued)

APPROPRIATIONS

A similar comment also appeared in prior Reports B30572, B38093, B41439, and B49568, entitled *APPROPRIATIONS*.

Condition and Context

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

<u>Fund</u>	<u>Year</u>	<u>Excess Amount Expended</u>
General Fund	2017	\$ 45,947
Local Road & Street	2017	1,192
Park	2017	29,499

Criteria

Indiana Code 36-5-4-2 states in part: "Unless a statute provides otherwise, town monies may be disbursed only after an appropriation made by ordinance of the town legislative body . . ."

CUSTOMER DEPOSIT REGISTER

Condition and Context

The detailed customer deposit register did not reconcile with the Water Utility - Customer Deposit fund.

Criteria

At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

There were deficiencies in the internal control system of the Town related to financial transactions and reporting for cash and investments, receipts, and financial close and reporting.

Cash and Investments

The Clerk-Treasurer completed the monthly bank reconciliements. There were no controls in place, such as an oversight, review, or approval process.

CLERK-TREASURER
TOWN OF CAYUGA
AUDIT RESULTS AND COMMENTS
(Continued)

Receipts

The Town had not segregated key functions related to receipts. The Clerk-Treasurer wrote the receipts and posted to the ledger for non-utility receipts. There were no controls in place, such as an oversight, review, or approval process.

Financial Close and Reporting

The Clerk-Treasurer compiled and submitted the Annual Financial Report. There were no controls in place, such as an oversight, review, or approval process.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

PAYMENT OF CLAIMS PRIOR TO TOWN COUNCIL ALLOWANCE

Condition and Context

The Town did not adopt an ordinance to pay claims prior to Town Council approval. Numerous claims were paid prior to Town Council approval, including monthly transfers made to the Bank of New York totaling \$98,448 for the audit period. Of the vendor claims tested, 58 percent were paid prior to Town Council approval that totaled \$92,447.

Criteria

IC 36-4-8 and IC 36-5-4 list various conditions which must be met prior to issuing warrants in cities and towns. IC 36-4-8-14 and IC 36-5-4-12 permit a city or town council to adopt an ordinance allowing the city or town fiscal officer to pay certain types of claims prior to board allowance.

CLERK-TREASURER
TOWN OF CAYUGA
AUDIT RESULTS AND COMMENTS
(Continued)

The types of claims which could be paid before board allowance include:

1. property or services purchased from the U.S. Government,
2. license or permit fees,
3. insurance premiums,
4. utility payments or connect charges,
5. general grant programs where advance refunding is not prohibited and the contracting party posts sufficient security to cover the amount advanced,
6. grants of State funds,
7. maintenance or service agreements,
8. leases or rental agreements,
9. bond or coupon payments,
10. payroll,
11. state, federal, or county taxes,
12. expenses that must be paid because of emergency circumstances, and
13. expenses described in an ordinance.

Each payment of expenses must be supported by a fully itemized claim and certified by the fiscal officer and must be reviewed by the proper board at its next regular or special meeting. (Cities and Towns Bulletin and Uniform Compliance Guidelines, September 2015)

CLERK-TREASURER
TOWN OF CAYUGA
EXIT CONFERENCE

The contents of this report were discussed on December 23, 2019, with Greg Ratliff, Town Council member; Tamara Hetrick, Clerk-Treasurer; Ron Brink, President of the Town Council; and Leigh Ann Smith, Deputy Clerk-Treasurer.